

Eurozone

In Q4 2023, the main Eurozone economies continued to advance at different rates

In Q4 2023, activity was again at a standstill in the Eurozone: this was the fifth consecutive quarter of virtually zero growth for the monetary zone. On average in 2023, activity slowed significantly (+0.5% after +3.4% in 2022): the buoyancy of the post-health crisis catch-up had run its course while the effects of inflation and monetary tightening were being felt, especially in household investment. Meanwhile, corporate investment resisted fairly well on average throughout the year, although some signs of weakness emerged towards the end.

Among the main Eurozone economies, the dynamics of growth in France and Italy were generally quite similar in 2023 (+0.9% in France and +1.0% in Italy), as they had been in Q4 2023 (+0.2% in Italy ► **Figure 1** and +0.1% in France). In both countries, foreign trade bolstered growth towards the end of the year (due to dynamic exports in Italy and a sharp decline in imports in France) and domestic demand fell back. In France, investment, both by businesses and households, held back growth. Conversely, investment was vigorous in Italy, especially investment in construction, which continues to be driven by powerful public support measures (► **Focus** construction in Eurozone). However, private consumption has fallen significantly.

The German engine, in contrast, has collapsed. Activity declined in Q4 2023 (-0.3%) as it had done throughout the year (-0.1% in WDA data in 2023). Domestic demand contracted in Q4 2023: it was boosted slightly by household and government consumption (+0.2% and +0.3% respectively), but was heavily penalised by investment (-1.9%). This decline occurred not only in investment in construction, but also in investment in equipment. In a context of stagnating world trade, the two components of foreign trade declined in similar proportions, -1.6% for exports and -1.7% for imports, with

► 1. Quarterly variations in GDP and contributions of demand items

(quarterly variations in % and contributions in points)



How to read it: in France, in Q4 2023, GDP increased by 0.1% and the foreign trade contributed around +0.9 points.

Source: INSEE, Destatis, Istat, INE, INSEE calculations.

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zero effect on growth. As a result, German exports fell back for the fifth consecutive quarter, giving rise to a continuous loss of market share.

Meanwhile, the Spanish economy continues with its catch-up: activity increased by 0.6% in Q4 2023 and by 2.5% on average in 2023. In contrast to Germany, Spanish exports are growing faster than world demand, thus the Spanish economy is gaining market share: foreign trade contributed significantly to growth in 2023 (+0.8 points). Purchasing power is solid, driven by a steady increase in employment and real wage gains, resulting in a more marked increase in consumption than in the other major Eurozone countries.

Cyclical divergences are likely to continue into Q1 2024 then lessen by mid-year

Business tendency surveys in the four main Eurozone economies suggest that the divergence observed at the end of 2023 is expected to continue at the beginning of 2024 (► **Figure 2**). It is likely that Spain will continue its catch-up momentum in Q1 (+0.6%, ► **Figure 3**), and this will then slow somewhat (+0.5% in Q2). The confidence indicator is close to average in Italy, where growth is expected to continue at a moderate pace (+0.2% in both quarters). In France, Q1 is likely to be adversely affected with industrial production in difficulty and investment in housing still in decline: activity is expected to stagnate before rebounding in Q2 (+0.3%), as restrictions are eased a little. In contrast, the business tendency surveys are still very much in decline in Germany and in Q1 it is likely that the country will see GDP fall again (-0.1% after -0.3%), before returning to moderate growth in Q2 (+0.2%), driven by household consumption.

After exceeding 10% at the end of 2022, inflation in the Eurozone fell back throughout 2023, dropping to 2.6% in February 2024. However, from January 2024, the withdrawal by governments of price moderation measures, especially for energy, is likely to limit any further decline in inflation in the coming months (► **Focus** inflation in Eurozone).

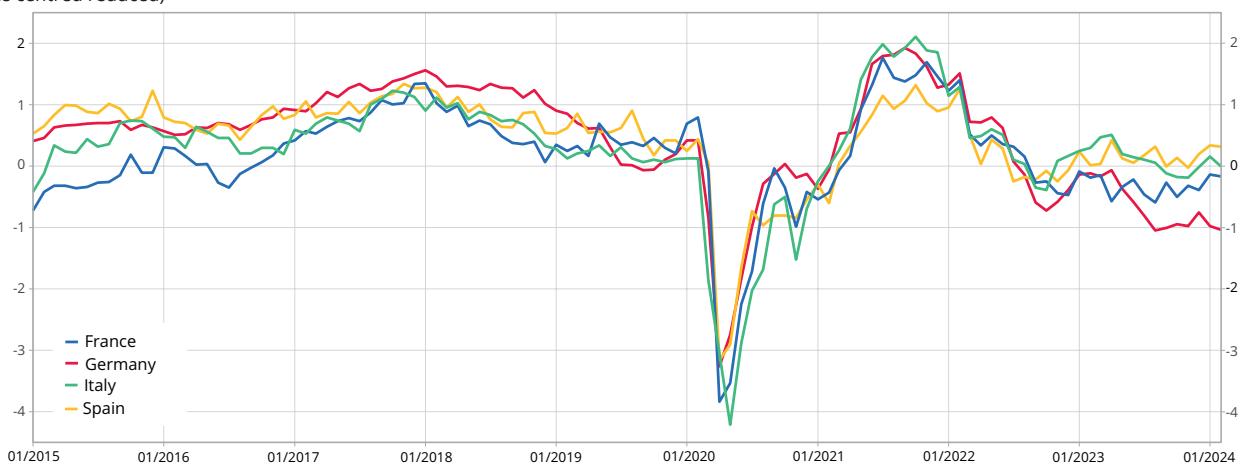
Purchasing power is expected to improve, driven by wages, which are still buoyant. In Spain and Germany, Q1 will see sizeable increases in the minimum wage (+5% and +3.4% respectively). In Q2, several pay rises will come into force in Germany, negotiated through collective bargaining agreements. In Italy, wages continue, slowly, to catch up with inflation. These increases in purchasing power should therefore boost private consumption in the Eurozone countries, although in Germany purchasing power is unlikely to improve until Q2.

With base interest rates being held at their high levels, investment will continue to be affected in the Eurozone, especially in construction. In Germany, as in France, activity in this sector looks set to decline further (► **Focus** construction in Eurozone) although the pace of decline is gradually easing. In Italy and Spain, the introduction of recovery plans, including major packages for the energy renovation of buildings and the development of infrastructure, is expected to offset the negative effect of monetary tightening and investment should be able to hold out.

Regarding foreign trade, exports in the main Eurozone economies should increase again in Q1 2024, following the pattern of world trade (► **Figure 4**). On average across the quarter, due to cyclical differences, it is likely that the contribution of foreign trade in Spain will no longer be positive; in Germany it should be slightly positive and in Italy it is expected

► 2. At the beginning of 2024, the business climate improved slightly in the main Eurozone economies, except in Germany

(climate centred reduced)



Last point: February 2024.

How to read it: in Spain, in February 2024, the general business climate was standard deviation 0.3 above its long-term average (average over the period January 2005 to February 2024).

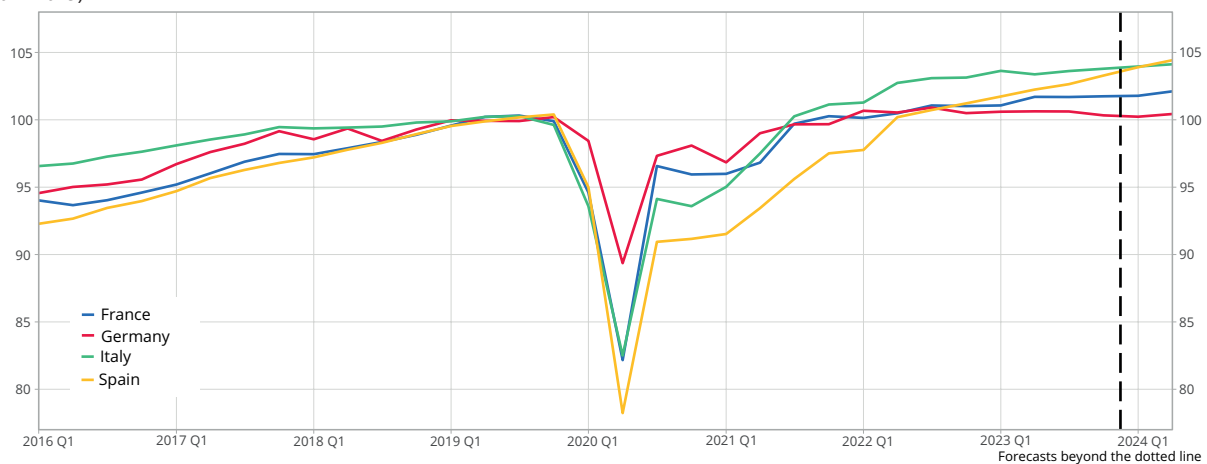
Source: DG ECFIN surveys.

to be zero. In France, foreign trade is expected to hamper growth in Q1 2024 as inventories are built up again after the extensive destocking process that occurred at the end of 2023; it should then support growth in Q2, with some large aeronautical and naval deliveries.

Overall, the Eurozone should expect to see another quarter of almost zero growth at the start of 2024 (+0.1%), but it should then bounce back (+0.3% of growth in Q2 2024) in the wake of the French and German economies. In these two countries, this rebound is expected to be driven by a smaller decline in investment in construction and a moderate upswing in consumption. ●

► 3. Past and forecast changes in GDP

(base 100 in 2019)



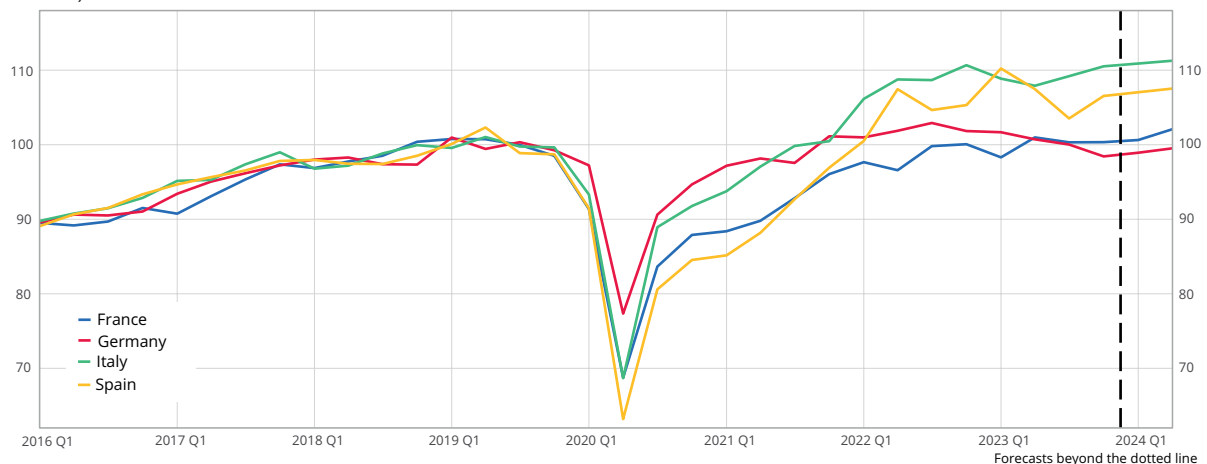
Last point: Q2 2024.

How to read it: in Q4 2023, GDP in volume in Germany was 0.4% above its 2019 average.

Source: INSEE, Destatis, Istat, INE, INSEE calculations.

► 4. Past and forecast changes in exports

(base 100 in 2019)



Last point: Q2 2024.

How to read it: in Q4 2023, exports in volume in Spain were 7.6% above their 2019 average.

Source: INSEE, Destatis, Istat, INE, INSEE calculations.